

Minneapolis Community Development Agency

## Request for City Council Action

Date: August 12, 2002

To: Council Member Lisa Goodman, Community Development Committee  
Council Member Barbara Johnson, Ways and Means/Budget Committee  
Refer to: MCDA Board of Commissioners

Prepared by Cynthia Lee, Manager, Multifamily Housing, Phone 612-673-5266

Approved by Chuck Lutz, MCDA Interim Executive Director \_\_\_\_\_

**Subject: Waiver of City Administrative Fee for the Tax Increment Financing for the Grant Park and Unocal Projects; Revised Grant Park Note Resolution**

**Previous Directives:** The City Council approved TIF Plans for the Grant Park and Unocal projects in 2001-2002.

**Ward:** 7 and 2

**Neighborhood Group Notification:** The projects have been approved by the Elliot Park and Prospect Park-East River Road neighborhoods.

**Consistency with *Building a City That Works*:** Consistent with Goal 2, to ensure that an array of housing choices exist to meet the needs of our current residents and attract new residents to the city.

**Comprehensive Plan Compliance:** Projects comply.

**Zoning Code Compliance:** Projects comply.

**Impact on MCDA Budget:** (Check those that apply)

- ☒ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☐ Other financial impact (Explain):

**Living Wage / Business Subsidy:** Not applicable.

**Job Linkage:** Not applicable.

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**Affirmative Action Compliance:** Projects will comply.

**RECOMMENDATION:**

**City Council Recommendation:** The Interim Executive Director recommends that the City Council waive the City 3.0% administrative fee for the tax increment financing for both the Grant Park and Unocal projects; forward to the MCDA Board of Commissioners.

**MCDA Board Recommendation:** The Interim Executive Director recommends that the MCDA Board of Commissioners approve the attached revised MCDA resolution authorizing the issuance of Taxable Tax Increment Revenue Notes for the Grant Park project in an amount not to exceed \$10,000,000.

**Background/Supporting Information**

Under current practice, the City charges the MCDA a 3.0% administrative fee for many activities that flow through the Agency's capital projects funds. However, a number of activities are specifically exempt from this fee. In particular, payment of debt service on Agency debt (bonds and notes) is not subject to the City admin. fee.

The Agency has previously been given authorization and direction by the City Council and Board of Commissioners to provide tax increment financing assistance to both the Grant Park and Unocal housing projects through the issuance and sale of tax increment revenue notes. The debt service on these notes is exempt from the City fee as noted above. However, the Agency's expenditure of the note proceeds themselves is not specifically exempted.

The last time the Agency sold tax increment revenue notes of this type was for the Village at St. Anthony Falls project (East Hennepin & University) back in 2001. That project received a waiver of the City 3.0% fee. For the reasons described below, we are requesting a similar waiver for the Grant Park and Unocal projects.

When the Agency sells tax increment revenue notes for various projects, the note proceeds are considered "tax increment" by state law, and are subject to the restrictions and limitations imposed by Minnesota Statutes (Chapter 469). While tax increment may be used for administrative purposes, these expenditures must be for costs specifically incurred in administering the tax increment financing district or redevelopment project, and must be thoroughly documented as required by the Office of the State Auditor. If the City is unable to document that note proceeds were used for eligible purposes, then a violation of state law has occurred.

In the opinion of City bond counsel and MCDA legal staff, and with concurrence from the City Finance Department, the charging of a City admin. fee in these two instances is

not readily verifiable, and therefore not advisable. This action has no effect on budgeted City revenues because these revenues had not yet been built into any projections. It is therefore recommended that the City Council waive the City 3.0% administrative fee for both the Grant Park and Unocal projects.

### **Revised Grant Park Note Resolution**

On July 12, 2002, the MCDA Board of Commissioners authorized the issuance of up to \$10,000,000 in Taxable Tax Increment Revenue Bonds for the Grant Park project (Resolution No. 2002-2615M). Since that time, MCDA bond counsel has recommended that several administrative/technical corrections and additions be made to the resolution. These corrections and additions are intended to clarify certain provisions of the financing.

The revised note resolution is attached. This resolution clarifies the following items:

- 1) Most of the taxable notes will be due in August of 2007 (5-year balloon). It is the intention of the Agency to refinance the notes at that time with tax-exempt tax increment bonds. If a full refinancing can not take place at that time, a developer guaranty will first be drawn upon to repay the noteholders. If the guaranty is insufficient to pay all principal and interest on the notes, then the Agency will, over time, continue to pay outstanding (overdue) principal and interest on the notes from tax increment collected from the Grant Park TIF district.
- 2) The Agency may pay some small amounts of principal on the notes in 2006 and 2007, prior to the 5-year balloon amount.
- 3) Any excess amounts of tax increment which are not needed to pay Agency administrative expenses and principal and interest on the notes every six months, will be retained in a prepayment reserve account for use in paying off some of the notes early.